

Contrary and Congruent Views of Leadership and Management in the Australian Social Economy

A research project by



"The 21st Century will be the century of the social sector organisation. The more economy, money and information become global, the more community will matter. And only the social sector nonprofit organisation performs in the community, exploits its opportunities, mobilizes its local resources, [and] solves its problems. *The leadership, competence, and management of the social sector nonprofit organization will thus largely determine the values, vision, the cohesion and performance of 21st Century Society.*"

Peter F Drucker, Drucker Foundation 1999

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Via this report we introduce the concept of "open source research". This idea parallels the very successful open source movement in the software industry exemplified by Linux, Firefox and thousands of other valuable projects. A core element of the open source movement¹ is a license that forces derivative works to be as free as the material on which it is based. In this way, intellectual property can enjoy total freedom, maximising its opportunity to be used and improved. Academia has a long tradition in this vein. The difference here is the legal framework that requires derivative work to be shared publicly and for free.

Note

The data and evidence were collected in this study during the period July – October 2007. Since then conditions may have changed. Hence, interpretations provided in this report may also have changed in the interim and in the period of dissemination and discussion about the outcomes of the study. The reader is referred to the archives for further verification of both data and interpretations. These preliminary findings are shared in the spirit of action learning and collaboration, an organising theme in the conduct of the research. Your constructive criticism either with the team via email or via the SEEEN discussion forums (www.seeen.org.au) is welcome.

¹ For an overview and introduction see the wikipedia entry at http://en.wikipedia.org/wiki/Open_source.
More information and resources are available at <http://www.gnu.org/>

Chapter 5: Governance and boards

We asked the question: You have identified “*Measurement of impact*” as a most important issue. Please say a few words why you think it important. In participants’ responses to the issue, not one respondent used the term “board” or “governance”. Neither was there a single reference to or comment on governance and boards of directors in several other issues such a sector leadership, investment, and innovative business models.

In the section which follows we discuss three issues which participants’ raised and which may be regarded as central to the role and responsibilities of boards of governance. We then look at the particular views of each segment of participants, members of the Social Economy, the for-profit sector and Governments.

5.1. Moral Insolvency

A number of executives from the sector observed that many organisations struggle financially, to the point that they don’t know where the “next dollar is coming from”. This is an alarming observation for two reasons.

The first concern arises from the possibility of financial insolvency. One of the most important functions of a board of directors is to represent and protect the interests of stakeholders. If a company is not able to “meets its debts as they fall due” it is insolvent and the directors are liable for any additional debts incurred. It is not clear from the comments that executives and board members pay sufficient attention to the risks of insolvency, particularly as organisations rapidly scale and enter new areas of operation.

In some respects though, there is an even worse concern. That is the possibility of “moral insolvency” ... the inability to “maintain interventions through to their completion”. Many Social Economy organisations attempt to change society, or its members, for the better through long term interventions (such as educating the mentally ill to become more independent). Not following through on an intervention once started might cause substantial harm to the “clients” of the intervention.

Do short term funding cycles fly directly in the face of the long term intervention and require organisations to step up and find ways to ensure long term financial support to match their interventions?

5.2. Transparency

A frequent call from all quarters in recent years has been a need for greater transparency, and the Social Economy has not been excluded³³. Transparency is closely linked with accountability but also takes into account financial responsibility, governance, legal

³³ See, for example, *Business Review Weekly*, 2005.

requirements, tax disclosure³⁴, funding requirements, impact measurement, integrity and values of the sector, reporting³⁵, as well as language and communication.

Transparency was a matter of concern expressed in the views of many participants throughout the study. Comments from participants such as the following were not uncommon:

Governments might well advocate for transparency according to their agenda. But it is the sector itself that has to put in place much more transparent operating systems within a business framework environment.

There are many temptations for people and organisations to use their resources for their own personal ends. There must be honest and transparent governance to keep check on this³⁶.

Further, some of the drivers of negative behaviour identified in the discussions on self-interest, competition and cooperation are at least in part due to a lack of transparency.

Transparency in some form(s) throughout all aspects of the sector is a necessary pre-condition for change in the sector.

However, it seems that transparency alone is not enough. The sector's stakeholders need to become more sophisticated in their understanding of the sector to ensure that any increased transparency doesn't result in negative backlash. For example, there is no point encouraging organisations to disclose their overhead costs or to argue for the need for their greater investment in capacity if naïve funders will view this negatively and reduce their financial support. Equally, if the community is not prepared for executives (and workers) in the sector to receive reasonable compensation, it is unfair to expect those executives to disclose their more often than not meagre compensation packages.

5.3. Accountability

Transparency enables accountability.

Innovative leaders in the focus groups and thought leadership forums repeatedly expressed the view that there was increasing accountability required of the sector. They spoke of the need for better measures of impact. And participants from foundations commented on the need for better processes for application and disbursement of funds that predicted greater social impact. Recent discussions within the Social Economy speak about the "rating of organisations³⁷ and benchmarking within (and perhaps across) the sector.

Hence, it may be asserted that with these comments above and what may be read in contemporary literature³⁸, a new wave of accountability will embrace many aspects of the operating environment of the Social Economy. This accountability will be about

³⁴ See, for example, recent research by Myles McGregor-Lowndes on tax concessions in the Australian nonprofit sector.

³⁵ We have in mind here the kind of reporting the Institute of Chartered Accountants proposes for nonprofits at <http://www.charteredaccountants.com.au/files/documents>

³⁶ Govt. 283 (1) S31

³⁷ Compare, for example, the recent 20th October 2007, Meeting of Corporate Charity Leaders called "Rating Nonprofit Organisations in Australia" convened by the Myer Foundation.

³⁸ See for example, 21st NGOs. See also Lyons (2005) BRW Response.

impact, performance, organisational quality, capability, and related issues. We suggest that accountability might be interpreted in the broader sense of systems accountability, organisational accountability and self-accountability. All forms are important but we consider the last mentioned, self-accountability might receive greater attention. Self-accountability challenges vested self-interest and misalignment of interests generally; and it places demands on the Social Economy to engage productively with itself. Whatever form of accountability is mooted for the social sector, the sector itself needs to participate actively to ensure that it directs its own future. This means that large corporate charities, private corporates, and other existing organisations with reputation and profile may take a lead but the process must be inclusive and not an exercise in power (as participants in our study indicated) of large over small organisations.

Furthermore when we speak about accountability, it is important to speak about the concept in an holistic sense, and not just nor only about social impact. Hence it appears to us that if such an approach were taken into account, a number of issues raised by participants in this study would be addressed. Any holistic approach might include³⁹:

- Statements of an organization's **mission**, its purpose, its design (grant to earned income ratios) and governance, alliances and partnership, codes of conduct and policies.
- Statements of internal **operations**, employment and "discounted" wage structures, remuneration of directors and managers, sustainability strategies, performance indicators, program activities etc: and
- Statements about **impact** and the effectiveness of projects and programs, public policy, reporting, representation and advocacy, etc.

All these three areas contribute in a systematic way to greater transparency in the sector.

5.4. Differing views on governance

The issues discussed above might be viewed as central to board role and responsibilities in the Social Economy. How then did the various segments (social, private and public) view governance in the Social Economy?

5.4.1 Views from within the Social Economy

Participants viewed members of boards and governance of the sector in a very negative light. According to the participants, the members of Social Economy boards:

- were inferior (especially volunteer members) in strategic planning and financial management skills both of which participants noted "were the cornerstones of accountability)";
- occupied their positions because of political influence external to the organisation;
- exhibited the following characteristics or attributes: self-interest driven, poor skills, involved in petty issues, holding unrealistic visions, personality driven, and interfering with management;
- lacked appreciation of their legal responsibilities;
- did not have the right skills set anyway;

³⁹ Ideas for this section have been largely derived from the study data but supported by material from Sustainability www.sustainability.com.



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- had little understanding of how they can add value;
- interfered and intervened in the responsibilities and roles of managers;
- were immune from education and training and learning about modernized boards and their changing responsibilities in a contemporary [social] business organisation;
- tended to lack good relationships with CEOs;
- were generally inefficient in fulfilling their responsibilities (especially those who were "after- hours" board members);
- limited their time in decision-making, policy directions and development ostensibly because of lack of time;
- had (as a consequence of the above) a limited presence in the social sector organisation on whose board they served;
- represented both an asset and a curse for the Social Economy⁴⁰;
- a potential and in some cases real source if not cause of frustration in many Social Economy organization;
- were self-serving (See Chapter 10) in that some boards and their members were exempt from scrutiny because of their long-serving contribution to society;
- were an "administrative necessity ";
- were incapable of delegating responsibilities;
- were ineffective in dealing with Governments at all levels (particularly Federal) who were seen to be imposing unrealistic performance standards (for volunteers); that is, imposing greater regulation on organisations⁴¹.

These views may be considered damning in anybody's language. There was indeed a great deal of discomfort about boards and governance in the sector *by sector members themselves*. According to their views and assessments boards and their directors in the Australian Social Economy, are failing to perform; and failing badly.

After reading these views of Social Economy members we might ask the question: What are some of the reasons for the expression of these views among members of the Social Economy?

The reasons are complex and in part reflected in participants' comments. However, they were not pursued in any depth (for reasons already indicated in the purposes of the study, namely that it was beyond the scope of the research to interrogate every issue). It might be noted however that, in principle, participants acknowledged that:

- properly functioning boards were a potential valuable asset in the sector or organisation;
- the education of board members ("increased capacity of board members") was viewed as an immediate priority;
- there was no funding support to engage in the professional development of board members;
- the sector would flourish with increased standardization and transparency of reporting through well performing boards;
- directors were seen to occupy a place on boards of governance (part of a "prestige hunt") to promote their own interests and "unrealistic objectives"; and

⁴⁰ Gov 526 (1) S# 1

⁴¹ Gov 324 (1) S# 1



- alignment of a Board's thinking and views with program operations and the work of CEOs was a necessity.

But this raises the question as to whether participant Social Economy members also possess knowledge of governance of a standard they expect on their own board members⁴². How do participants interpret governance and its roles and responsibilities?

If one considers the content of participants' views and compares them with the roles and responsibilities of directors serving on a contemporary Social Economy board of governance, it could be argued that there may well be generally deficient knowledge throughout the sector! For participants in their responses demonstrated that they understood aspects of board role and responsibilities, and in what areas a board was expected to perform; but they were generally short in detail about roles and responsibilities (See footnote 34).

There may be a number of reasonable "answers" to this situation. The legal requirements of Governments and Statutory Bodies (e.g. ASIC) pertaining to Boards in the Social Economy and Nonprofit area generally are unsympathetic to the nature of the sector⁴³. Company law and tax and revenue concessions compare unfavourably with those implemented by UK and European Governments for social enterprises. And one might not expect members have more to learn other than the role of boards as they go about passionately doing busy work. (The latter argument is fallacious and demonstrates the fact that there has been too little professional development in creating the learned professional in the Social Economy).

It is difficult to see the justification for such a critical eye by Social Economy members.

Two further issues were raised by participants in the study⁴⁴. The first related to the observation that while most boards demonstrated a certain level of competence in their responsibilities (compliance, networking, and representing the program), they were also the employers of leaders and managers including CEOs who were expected to operate with great efficiency. This situation had the potential to create tensions in relationships. A second issue was observed in the high costs of restructuring Social Economy boards on a federated/national model.

Never-the-less, the overwhelming pattern of negative views needs to be considered carefully. A complete overhaul of boards of governance in the sector indicated by this evidence is as imperative as is the need for professional development through education and training of all members in the sector. Only then will their knowledge and capabilities bring about change and impact.

⁴² We are reluctant to a comprehensive detailed list about the roles and responsibilities of contemporary boards here but identify four areas: *Accountability* (stakeholder issues, responsible representation, competitive positioning corporate co-option etc); *Funding* (ensuring adequacy for present and future needs, sources of funding, fundraising methods, % allocated to "cause" etc); *Transparency* (financial & ethical disclosures; directors' compensation; CEO & staff remuneration; promotion policies; triple-bottom-line reporting etc) ; and finally, *Standards* (professional standards, CSR frameworks, benchmarks, stakeholder satisfaction etc.). Source: *The 21st NGO*

⁴³ See, for example, the most recent paper *The Administration of Charities in Australia* of the National Roundtable of Nonprofit Organisations (restricted circulation); and the list of "tax and Other Revenue Concessions" compiled by McGregor-Lowndes, QUT, Brisbane.

⁴⁴ FG 4a&b

5.4.2 Views from the for-profit sector

If these were the pattern of views of Social Economy members, how do they compare with for-profit members from the business sector?

For-profit respondents showed an apparent sanguine position about the role of boards in the social sector in particular (but not necessarily its practices). They were of the view that boards of governance existed as:

- a means of achieving resource maximization through effective leadership;
- exercising a leadership role in organisations;
- a guide and director of management;
- a generator of innovative practice to engage in new ways of operating;
- a source of innovation and flexibility; and
- the primary entity to ensure and improve accountability in businesses and organisations.

This is very much a stock-in-trade kind of response from professionals who generally have access to adequate accredited and non-accredited professional development programs.

Hence it was not surprising that they viewed Social Economy organisations in the following way:

- Governance of the Social Economy was "poor";
- Social Economy organisations and programs needed to take a "different view or position" if they were to be funded by corporate businesses;
- There was weakness and lack of preparation of the social sector to comply with corporate law requirements;
- Governance needed to be more business savvy; for example, it needed to be focused "on cutting functions" and "developing cause related marketing props to build capital reserves";
- There was a problem of "power objectives" in Social Economy organisations (for example, the struggle to assert one's organisation over another in the sector especially in competitive situations such as grant applications);
- A mechanism was needed to overcome the complications and counter-productive effects of this observable struggle for power within the sector;

These views reflect a reticence on the part of the for-profit sector to comment; yet embedded in the text is a certain disregard for Social Economy boards, a disregard that could be interpreted incorrectly at a surface level meaning as sanguinity.

5.4.3 Views from government

Not unexpectedly perhaps, the views of respondents employed by Government agencies focused on those issues which were relevant to their practice and the policy role of government. Their responses recorded to the issue, "Government Policy and Regulations" were somewhat different from leaders-managers and practitioners who commented on government policy that:

- "Is like carrots and sticks"
- "Allows and hinders"
- "Are barriers to operation"

- “Enhance or frustrate”
- “Make a job simple or detailed and slow”
- “Are reactive rather than proactive”

But their responses in relation to the issue of boards and their role and responsibilities also indicated some support and recognition of:

- The merits of introducing stronger measures of transparency and audit in the running of social economy organisations;
- Good governance constituted trust building through collaboration with the community;
- The need to demonstrate self-accountability (that is, to themselves and their own board). Social Economy boards acted as though they were independent of welfare agencies; and
- Organisations were funded by the government to do government work: thus became like statutory authorities who had to demonstrate accountability.

The last comment is particularly pungent. On the one hand it while a certain sympathy for Social Economy governance and their board has been indicated from previous comments above, on the other hand the final comment about boards being little more than statutory entities of government demonstrates excessive ignorance or arrogance. There may be a need for further learning about roles and responsibilities of nonprofit governance in a sector that provides inadequate professional development resources for its staff.

5.4.4 Reconciling the views on Governance

While Social Economy respondents were quick to criticise boards and governance in the Social Economy, they appeared to be aware of the operational consequences and impact of boards of governance on the operating environment in which they worked. And their comments throughout the data support this observation (See side-bar).

It must also be remembered that the litany of criticisms of boards of governance cannot be applied to all industry types equally. We suspect that much of the criticism is directed at volunteer-based organisations but given the pervasive nature of the criticism this conjecture should to be verified.

There are several open-ended statements that might be made about governance in the sector:

- An acknowledgement of the critical role of boards of governance especially for the future development of sector organisations and programs.
- Confusion between governance and management while declaring that managers, not directors, really “run” organisations in the Social Economy.
- A general but real confusion and ignorance about board roles and responsibilities. These claims are directed at board directors but it is suggested from some parts of the data that they might be extended to many personnel in the sector.
- Ineptitude of board members seen to be most prevalent in voluntary-based and community organisations.
- A critical role of boards in the Social Economy is seen to be the cause of fund-raising difficulties. But respondents noted that boards were under-performing in this area;



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and in addressing accountability, performance and reporting the impact of their organisations.

- Structuring Social Economy boards on for-profit models is seen to bring its own attendant set of problems.
- Government policy and rules and regulations do not sit easily with Social Economy organisations in Australia.
- Placement of reputable and skilled Social Economy personnel on the boards of significant public corporations who would benefit from their CSR knowledge. Such an exchange would create the opportunity for mutually beneficial education.

5.5. Questions

In a context where funders are the principal providers of funds and resources for many in the sector yet impose a rigidity of guidelines that exclude the funding of general expenses for professional development activities, we might ask the following questions:

1. Thus should Social Economy organisations be more concerned not only with their ability to meet their debts, but also to sustain their interventions with clients?
2. What is the role of boards of directors as advocates and changemakers in the sector?
3. In what combinations should directors be recruited for skill, money, capacity to contribute?
4. Should, and how can directors be held liable for moral insolvency?
5. What are new roles for funders (public, private and foundations) in the education and training of boards of governance? And
6. How does governance as leadership currently contribute to impact in the sector; and what changes are needed?
7. What responsibilities do both funders and boards of governance have in ensuring that appropriate funding is allocated to the education and training of personnel in the Social Economy?

QUOTES:

Many third sector board seats are grace and favor positions for individuals with inferior skill sets but some political influence. It should be the board's responsibility to ensure adequate financial accountability and strategic planning but too often they lack the skills or interest in anything other than micro-management at the one hand or laziness/unwillingness to step up to the plate at the other. Gov 55, (1), S#1

CSO's are often hamstrung by poor governance - self interest, poor skills, petty issues, unrealistic visions, interference with management and personality driven. Poor governance means a weak and potentially ineffective CSO, which can have a negative impact on other similar CSO's. Gov 238, (1), S#1

Few boards have the right mix of skill sets for the sector. Given that fundraising income is so important for the majority of organisations very few have a professional fundraiser on the board. Too many boards also want to manage the charity rather than govern it. Gov 533, (1), S#1

The management of NGOs, like small businesses, need to have knowledge and experience in a breadth of fields, across sectors, and an understanding of legislation and governance - regardless of size. That is a big ask, and a big drain on funds. CM 473 (1) S#1



It (a Board) is both an asset and a curse to the NFP sector. Boards and trustees reflect the values and beliefs of the founding group but they can be very political and divided and create a significant workload for management to keep them informed and to manage governance processes. Management can spend more time trying to win the confidence of Boards than actually managing. Gov 526, (1), S#1

There is a lack of communication between ASIC and the various state-based authorities that govern charities and lay down standards for charitable reporting. Gov 173, (1), S#1

There could be more standardization and transparency of reporting with not-for-profits. Good governance is critical to maintaining the reputation of the sector. Gov 236, (1), S#1

Corporate world has had to become more accountable, will demand same of NGOs if they're to donate dollars. Gov 222, (2), S#1

Governance and compliance requirements both internal and external are a "one size fits all model" and for small entrepreneurial organisations, this claims a disproportionately high % of effort. I'm not suggesting fewer rules just more systems/tools/support to comply. CM 639 (1) S#1

I work for Government - we fund programs, but these programs see themselves as accountable to themselves and their own board more than their funders. They pride their independences, but in reality most are not really independent agencies at all (in my area) - they are virtually solely funded by Government to do Government work...so they are really closer to statutory authorities than independent welfare organisations. This has implications for governance - what are these organisations Gov 559, (3), S#1

Many small organisations do not have access to Governance training and more importantly, ongoing mentoring. One-off training is not enough and resources required to employ consultants to help with Governance issues are usually prohibitive. Gov 42, (3), S#1

Senior staff within organisations has often been trained in professions that do not address governance, therefore education is a major issue for both groups and must be contained in budgets, although it is not often found there. Gov 602, (1), S#1

Governments are demanding purchaser/provider models of management in the non government sector, insisting on tenders and cost neutral approaches with some contribution from organisations. Smaller NGO's and Board members for those NGO's often don't have the skills to manage a small business in those terms. BSD 600 (2) S#1

Government decides its policies and support, and only programs / organisations that fit in those parameters get support. This results in innovative ideas not getting support, and organisations skewing programs away from the true need in order to get funding. The onerous application and reporting processes also drain a huge amount of the funding given. And they seldom support overhead, yet expect good service delivery, governance, evaluation and reporting. GP&R 677 1

Charitable or not for-profit organisations often have a significant volunteer workforce. There is often a complex relationship in the organisation between the role of paid staff, volunteers and the role of the Board. Those who work for the organisation are motivated by factors other than a need to be paid to live. These organisations are often very complex in their functioning and management CM 115 (1) S#1